

NSW Trains Annual Report

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Volume 2

NSW Trains

Financial Statements 2019-2020



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Statement by the Chief Executive

In relation to the Financial Statements for the year ended 30 June 2020

Pursuant to section 41C (1B) of the *Public Finance and Audit Act 1983* and clause 7 of the Public Finance and Audit Regulation 2015, I declare that:

- (a) In my opinion, the accompanying financial statements, read in conjunction with the notes thereto, exhibit a true and fair view of the financial position of NSW Trains as at 30 June 2020 and of its financial performance for the year ended 30 June 2020.
- (b) The financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the Public Finance and Audit Regulation 2015, Australian Accounting Standards, which includes Australian Accounting Interpretations and the Treasurer's Directions.
- (c) I am not aware, as at the date of this statement, of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.



Peter Allaway
Chief Executive

12 October 2020

Statement of Comprehensive Income for the year ended 30 June 2020

	Note	2019-20 \$'000	2018-19 \$'000
Income			
Passenger services revenue		-	125,223
Sale of goods and services from contracts with customers/ Non passenger revenue	3.1	134,976	34,542
Investment revenue		912	2,605
Other revenue		521	-
Total Income		136,409	162,370
Expenses			
Operating expenses			
- Employee related expenses	4.1	274,291	265,732
- Personnel service expenses	4.3	14,169	15,975
- Other operating expenses	4.4	587,600	567,912
Depreciation and amortisation	7.2, 8.2 & 13.1	3,668	529
Finance costs	4.5	35	-
Total expenses		879,763	850,148
Deficit from operations before Government and other contributions		(743,354)	(687,778)
Government and other contributions	3.2	696,151	640,414
Deficit from operations for the year		(47,203)	(47,364)
Impairment gains/(losses) on financial assets	6.1	(12)	9
Net result for the year		(47,215)	(47,355)
Other Comprehensive Income			
<i>Items that will not be reclassified to surplus/deficit</i>			
Superannuation actuarial losses on defined benefit schemes	10.2	(5,201)	(59,279)
Total Other Comprehensive Income for the year		(5,201)	(59,279)
Total Comprehensive Income for the year		(52,416)	(106,634)

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position as at 30 June 2020

	Note	30.6.2020 \$'000	30.6.2019 \$'000
Assets			
Current assets			
Cash and cash equivalents	5.1	88,156	141,717
Trade and Other Receivables	6.1	19,759	26,155
Total current assets		107,915	167,872
Non-current assets			
Property, plant and equipment	7.1	4,503	10,868
Right-of-use assets	13.1	2,686	-
Intangible assets	8.1	5,424	6,877
Total non-current assets		12,613	17,745
Total assets		120,528	185,617
Liabilities			
Current liabilities			
Trade and other payables	9.1	41,621	67,434
Provisions	10.1	97,732	88,963
Borrowings	11	2,698	-
Contract liabilities	12	830	-
Total current liabilities		142,881	156,397
Non-current liabilities			
Provisions	10.1	218,123	210,160
Total non-current liabilities		218,123	210,160
Total liabilities		361,004	366,557
Net assets/(liabilities)		(240,476)	(180,940)
Equity			
Contributed equity	14.1	243,310	250,430
Retained earnings		(483,786)	(431,370)
Total equity		(240,476)	(180,940)

The Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity for the year ended 30 June 2020

	Note	Contributed equity \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2019		250,430	(431,370)	(180,940)
Changes in accounting policy	2.1.1	-	-	-
Restated balance at 1 July 2019		250,430	(431,370)	(180,940)
Deficit for the year		-	(47,215)	(47,215)
Other Comprehensive income				
Superannuation actuarial losses on defined benefit schemes	10.2	-	(5,201)	(5,201)
Total Other Comprehensive income for the year		-	(5,201)	(5,201)
Total Comprehensive income for the year		-	(52,416)	(52,416)
Transactions with owners in their capacity as owners				
Decrease in net assets from equity transfers (contribution by owners)	14.2	(7,120)	-	(7,120)
Balance at 30 June 2020		243,310	(483,786)	(240,476)

Balance at 1 July 2018		249,082	(324,789)	(75,707)
Changes in accounting policy		-	53	53
Restated balance at 1 July 2018		249,082	(324,736)	(75,654)
Deficit for the year		-	(47,355)	(47,355)
Other Comprehensive income				
Superannuation actuarial losses on defined benefit schemes	10.2	-	(59,279)	(59,279)
Total Other Comprehensive income for the year		-	(59,279)	(59,279)
Total Comprehensive income for the year		-	(106,634)	(106,634)
Transactions with owners in their capacity as owners				
Increase in net assets from equity transfers (contribution by owners)	14.2	1,348	-	1,348
Balance at 30 June 2019		250,430	(431,370)	(180,940)

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash flows for the year ended 30 June 2020

	Note	2019-20 \$'000	2018-19 \$'000
Cash flows from operating activities			
<i>Cash received</i>			
Passenger Services		104,298	138,426
Receipts from customers and others		47,873	41,118
Government contributions - Operating		692,887	633,746
Interest received		912	2,605
Total cash received		845,970	815,895
<i>Cash used</i>			
Payments to suppliers and others		(635,070)	(600,907)
Payments to employees		(263,375)	(256,898)
Interest paid		(35)	-
Total cash used		(898,480)	(857,805)
Net cash flows used in operating activities	5.2	(52,510)	(41,910)
Cash flow from investing activities			
<i>Cash received</i>			
Capital contributions		2,750	5,883
Total cash received		2,750	5,883
<i>Cash used</i>			
Property, plant and equipment and intangible assets		(2,071)	(5,452)
Total cash used		(2,071)	(5,452)
Net cash flows from investing activities		679	431
Cash flows from financing activities			
<i>Cash used</i>			
Payment of lease liabilities		(1,730)	-
Total cash used		(1,730)	-
Net cash flows used in financing activities		(1,730)	-
Net decrease in cash and cash equivalents		(53,561)	(41,479)
Cash and cash equivalents at beginning of year		141,717	183,196
Cash and cash equivalents at end of year	5.1	88,156	141,717

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

Note 1 Reporting entity and Financial Statements

(i) Reporting entity

On the 7th December 2012, NSW Trains was established under the *Transport Administration (General) Amendment (Sydney Trains and NSW Trains) Regulation 2012*. It became a statutory body on 17 May 2013 under the *Public Finance and Audit Amendment (Sydney Trains and NSW Trains) proclamation 2013*. It is domiciled in Australia and its principal office is at 470 Pitt Street Sydney, NSW 2000. Its principal objective is to deliver safe and reliable railway and coach passenger services in NSW in an efficient, effective and financially responsible manner.

NSW Trains operates services in the intercity and regional areas and commenced operation on 1 July 2013. Rail Corporation New South Wales (RailCorp) provides access to the rail network, stations, majority of property and certain rolling stock at no charge to NSW Trains in accordance with the Rail Services Contract with Transport for NSW (TfNSW).

NSW Trains is a controlled entity of TfNSW and TfNSW is a controlled entity of the Department of Transport. NSW Trains is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units.

(ii) Comparative information

Except when an Australian Accounting Standard permits or requires otherwise, comparative information is presented in respect of the previous periods for all amounts reported in the Financial Statements.

Where required, comparative information has been reclassified to align with the current year. Prior year comparatives relating to 'Resources free of charge' of \$0.8m has been reclassified from 'Non passenger revenue' to 'Government and other contributions' to align with the current year presentation.

The prior year line item 'Contributions for capital expenditure' of \$5.9m was also reclassified from the face of the Statement of Comprehensive Income to 'Government and other Contributions' to be consistent with the current year.

The introduction of new accounting standards has resulted in reclassification across various financial statement line items to comply with accounting standard requirements. NSW Trains has not adjusted comparatives in accordance with NSW Treasury mandates.

The significant reclassifications relate to 'Passenger services revenue' which has been reclassified to 'Sale of goods and services from contracts with customers' in the current financial year.

(iii) Authorisation of the Financial Statements

The Financial Statements were authorised for issue by the Chief Executive on the date on which the accompanying Statement by the Chief Executive was signed.

(iv) Statement of compliance

The Financial Statements and notes comply with Australian Accounting Standards, which includes Australian Accounting Interpretations.

Note 2 Summary of significant accounting policies

2.1 Basis of preparation

The Financial Statements are general purpose Financial Statements prepared in accordance with applicable Australian Accounting Standards, which includes Australian Accounting Interpretations, the requirements of the *Public Finance & Audit Act 1983*, the *Public Finance & Audit Regulation 2015*, and the Treasurer's Directions.

Generally, the historical cost basis of accounting has been adopted and these Financial Statements do not take into account changing money values or current valuations. However, certain liabilities are calculated on a present value basis such as leave entitlements and other provisions. Refer Note 2.3 (ii).

The accrual basis of accounting has been adopted in the preparation of the Financial Statements, except for cash flow information.

The Financial Statements have been prepared on a going concern basis which assumes that NSW Trains is expected to be able to pay its debts as and when they fall due and continue in operation without any intention or necessity to liquidate or otherwise wind up its operations.

NSW Trains' continued operations and ability to pay its debts are satisfied by annual grants from the NSW Government and availability of receivables and cash reserves. NSW Treasury has issued a letter of comfort to NSW Trains to ensure its ongoing viability for at least 12 months from the date the accompanying audit report was signed.

NSW Trains receives funding from Transport for NSW which receives appropriations from the Consolidated Fund. Appropriations for each financial year are set out in the Appropriation Act for that year. Due to COVID-19, the State Budget and related 2020-21 Appropriation Bill has been delayed and is anticipated to be tabled in Parliament in November/December 2020. However, pursuant to section 4.10 of the GSF Act, the Treasurer has authorised Ministers to spend specified amounts from the Consolidated Fund. This authorisation is current from 1 July 2020 until the earlier of 31 December 2020 (or another day prescribed by the regulations) or enactment of the 2020-21 annual Appropriations Act.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian Dollars. The Financial Statements are for the year from 1 July 2019 to 30 June 2020.

The term "Inter entity" in the Financial Statements refers to transactions between NSW Trains and Transport entities.

The term "Rail entities" in the Financial Statements refers to transactions between NSW Trains, RailCorp and Sydney Trains.

Note 2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Change in accounting policy

NSW Trains has applied AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-For-Profit Entities, and AASB 16 Leases for the first time. The standards have resulted in changes to NSW Trains' accounting policies.

(a) AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a five step model to account for revenue arising from contracts with customers and supersedes AASB 118 Revenue and AASB 111 Construction Contracts. The standard requires each contract to be reassessed after considering the relevant facts and circumstances of each transaction. AASB 15 requires revenue to be recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring the goods or services to the customer.

NSW Trains has adopted AASB 15 retrospectively which requires the cumulative effect of initially applying the standard to be recognised at the date of initial application (i.e. 1 July 2019). NSW Trains has applied all the transitional practical expedients permitted as mandated by NSW Treasury when:

- determining the transaction price
- identifying the satisfied and unsatisfied performance obligations
- allocating the transaction price to the satisfied and unsatisfied performance obligations.

The impact of applying the practical expedients will not significantly affect the Financial Statements.

The adoption of AASB 15 did not impact the timing of revenue recognition for NSW Trains however it has resulted in the reclassification of \$2.3m from 'Trade and other payables' to 'Contract liabilities' at the transition date. The adjustment relates to revenue for regional services paid in advance.

The effect of adopting AASB 15 as at 1 July 2019 and at 30 June 2020 is as follows:

Statement of Financial Position (Extract)

1 July 2019	As reported \$'000	Impact \$'000	Previous standards \$'000
Trade and other payables	65,106	(2,328)	67,434
Contract liabilities	2,328	2,328	-
Total liabilities	366,557	-	366,557
Retained earnings	(431,370)	-	(431,370)
Total equity	(180,940)	-	(180,940)
30 June 2020	As reported \$'000	Impact \$'000	Previous standards \$'000
Trade and other payables	41,621	(830)	42,451
Contract liabilities	830	830	-
Total liabilities	361,004	-	361,004
Retained earnings	(483,786)	-	(483,786)
Total equity	(240,476)	-	(240,476)

The impact on the Statement of Comprehensive Income is nil.

Note 2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Change in accounting policy (continued)

(b) AASB 1058 Income of Not-For-Profit Entities

The standard applies to income with donation components where the consideration to acquire an asset is significantly less than fair value principally to enable a not for profit entity to further its objectives and volunteer services. AASB 1058 replaces most of the existing requirements in AASB 1004 Contributions which is now largely limited to contribution by owner transactions and administrative restructure arrangements.

AASB 1058 adopts a residual approach whereby other Australian Accounting standards must be applied first to a transaction before income is recognised under the standard. The standard requires the receipt of an asset to be recognised as income:

- when the obligations under the transfer is satisfied for transfers that enable an entity to acquire / construct a recognisable non-current financial asset that will be controlled by the entity
- immediately, for all other income within the scope of AASB 1058.

NSW Trains has applied the standard retrospectively which requires the cumulative effect of initially applying the standard to be recognised at the date of initial application (i.e. 1 July 2019). The impact of adopting AASB 1058 is nil at the transition date as NSW Trains continues to recognise operating and capital contributions on receipt.

(c) AASB 16 Leases

AASB 16 sets out the principles for recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of Financial Position. AASB 16 supersedes AASB 117 Leases and the associated pronouncements.

NSW Trains has adopted the partial retrospective transition option in AASB 16 Leases. As result, the cumulative effect of initially applying the standards will be recognised at the date of initial application (i.e. at 1 July 2019). Any differences arising from the adoption of the standards has been recognised directly in retained earnings at the transition date. Comparative information has not been restated in accordance with NSW Treasury mandates.

Lessor accounting

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in AASB 117. Therefore, AASB 16 does not have a significant impact for lessors. NSW Trains is not a lessor under current arrangements.

Lessee accounting

AASB 16 requires lessees to recognise most leases in the Statement of Financial Position similar to the accounting for finance leases under AASB 117.

As the lessee, NSW Trains recognises a lease liability and right- of-use asset at the inception of the lease for leases classified as 'operating leases under AASB 117. The lease liability is measured at the present value of the future lease payments, discounted using the interest rate implicit in the lease, or the lessee's incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 1.42%. The corresponding right-of-use asset is measured at the value of the lease liability adjusted for lease payments before inception, lease incentives, initial direct costs and estimates of costs for dismantling and removing the asset or restoring the site on which it is located.

NSW Trains has elected to use the following practical expedients from 1 July 2019:

- short term leases and leases of low value assets will be expensed
- a single discount rate will be applied to a portfolio of leases with similar characteristics
- contracts considered to contain a lease under AASB 117 will not be re-assessed
- the initial direct costs will be excluded from the measurement of the right of use asset at the date of initial application
- using hindsight to determine the lease term where contracts contain options to extend / terminate the lease.

Notes to the Financial Statements for the year ended 30 June 2020

Note 2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Change in accounting policy (continued)

(c) AASB 16 Leases (continued)

The effect of adoption AASB 16 as at 1 July 2019 and 30 June 2020 (increase/ (decrease)) is, as follows:

Statement of Financial Position (Extract)

1 July 2019	As reported \$'000	Impact \$'000	Previous standard \$'000
Right-of-use assets	1,599	1,599	-
Total non-current assets	19,344	1,599	17,745
Retained Earnings	(431,370)	-	(431,370)
Total equity	(180,940)	-	(180,940)

30 June 2020	As reported \$'000	Impact \$'000	Previous standard \$'000
Right-of-use assets	2,686	2,686	-
Total non-current assets	12,613	2,686	9,927
Retained Earnings	(483,786)	(12)	(483,774)
Total equity	(240,476)	(12)	(240,464)

Statement of Comprehensive Income (Extract)

30 June 2020	As reported \$'000	Impact \$'000	Previous standard \$'000
Depreciation and amortisation expenses	3,668	1,742	1,926
Finance costs	35	35	-
Total expenses	879,763	12	879,751
Deficit from operations before Government and other contributions	(743,354)	(12)	(743,342)
Capital contributions	2,750	-	2,750
Total government and other contributions	696,151	-	696,151
Deficit from operations for the year	(47,203)	(12)	(47,191)
Net result for the year	(47,215)	(12)	(47,203)
Total Comprehensive Income for the year	(52,416)	(12)	(52,404)

The lease liabilities at 1 July 2019 can be reconciled to the 30 June 2019 operating lease commitments

	\$'000
Operating lease commitments as at 30 June 2019 (GST included)	2,924
Less: GST included in operating lease commitments	266
Operating lease commitments as at 30 June 2019 (GST excluded)	2,658
Weighted average incremental borrowing rate as at 1 July 2019	1.42%
Discounted operating lease commitments as at 1 July 2019	2,629
Less: commitments relating to short-term leases	1,030
Lease liabilities as at 1 July 2019	1,599

Note 2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised Accounting Standards

The Financial Statements have adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to NSW Trains effective for the reporting period beginning on 1 July 2019. The adoption of these new and revised Standards and Interpretations has not resulted in any significant changes to NSW Trains' accounting policies. NSW Trains did not early adopt any new accounting standards and interpretations that are not yet effective in accordance with NSW Treasury mandates.

The following new relevant Accounting Standards and Interpretations have not yet been adopted and are not effective as at 30 June 2020. The standards are effective for annual reporting periods commencing on or after 1 January 2020.

AASB / Amendment	Title	Issue Date	Application date of Standard
AASB 1059	Service Concession Arrangements: Grantors	July 2017	1 Jan 2020
AASB 2018-6	Amendments to Australian Accounting Standards – Definition of a Business	Dec 2018	1 Jan 2020
AASB 2018-7	Amendments to Australian Accounting Standards – Definition of Material	Dec 2018	1 Jan 2020
AASB 2019-1	Amendments to Australian Accounting Standards - References to the Conceptual Framework	May 2019	1 Jan 2020
AASB 2019-2	Amendments to Australian Accounting Standards – Implementation of AASB 1059	Sep 2019	1 Jan 2020
AASB 2019-3	Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform	Oct 2019	1 Jan 2020
AASB 2019-4	Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements	Nov 2019	30 Jun 2020
AASB 2019-5	Amendments to Australian Accounting Standards - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia	Nov 2019	1 Jan 2020
AASB 2020-1	Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current	Mar 2020	1 Jan 2022
AASB 2020-3	Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments	Jun 2020	1 Jan 2022

The following standard will be effective for next financial year:

- AASB 1059 *Service Concession Arrangements: Grantors* is effective for annual reporting periods commencing on or after 1 July 2020. The standard applies to arrangements that involve an operator providing public services related to a service concession asset on behalf of a public sector grantor. The standard will require the grantor to recognise a service concession asset and liability in the Statement of Financial Position at initial recognition. The standard is applicable to NSW Trains from 1 July 2020. The standard will not have an impact on NSW Trains at the transition date.

The above assessment is indicative only and the actual impacts will be reported in the next financial year. The impact of the other standards is not anticipated to be significant.

Note 2 Summary of significant accounting policies (continued)

2.3 Financial Instruments

Financial instruments are contracts that give rise to both a financial asset of one entity and a financial liability (or equity instrument) of another entity. They include cash and cash equivalents, receivables, payables and borrowings.

(i) Recognition

A financial asset or financial liability is recognised when NSW Trains becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the contractual rights to the associated cash flows expire or if NSW Trains transfers its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either:

- NSW Trains has transferred substantially all the risks and rewards of the assets
- NSW Trains has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control.

When NSW Trains has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

Financial liabilities are derecognised when the contractual obligation is discharged, cancelled, or expires.

Any applicable amortisation, impairment loss (or reversal), or fair value adjustment is recognised in the Statement of Comprehensive Income.

On derecognition, any difference between the items carrying amount and the consideration received or paid is recognised in the Statement of Comprehensive Income.

(ii) Measurement

On initial recognition, a financial asset or financial liability is measured at its fair value (which is usually its cost) plus any directly-attributable transaction costs.

After initial recognition, receivables and payables are carried in the Statement of Financial Position at amortised cost, which is a reasonable approximation of their fair value. Their fair value at year end is disclosed in Note 18.

Note 2 Summary of significant accounting policies (continued)

2.4 Impairment of financial assets

NSW Trains recognises an allowance for expected credit losses for debt financial assets not held at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows and the cash flows that the entity expects to receive, discounted at the original effective interest rate.

For trade and other receivables, NSW Trains applies the simplified approach in calculating expected credit losses. NSW Trains recognises a loss allowance based on lifetime expected credit losses at each reporting date. NSW Trains has established a provision matrix based on its historical credit loss experience for trade receivables, adjusted for forward-looking factors specific to each receivable.

Trade debtors are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others a failure to make contractual payments for a period of greater than 90 days past due.

2.5 Taxes

(i) Income tax equivalents

NSW Trains is exempt from the National Tax Equivalent Regime (NTER) and the Tax Equivalent Regime (TER) and is not required to pay income tax.

(ii) Goods and Services tax

Revenues, expenses and assets are generally recognised net of the amount of Goods and Services tax (GST). However, receivables and payables are stated with the amount of GST included, and GST that is not recoverable from the Australian Taxation Office (ATO) is recognised as part of the relevant asset or expense.

The net amount of GST recoverable from (or payable to) the ATO is recognised as part of receivables (or payables) in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of any cash flow arising from investing activities that is recoverable from (or payable to) the ATO is classified as an operating cash flow.

2.6 Leases

Recognition and measurement (under AASB 117 until 30 June 2019)

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Accounting treatment – operating leases

Lease rentals under an operating lease are recognised as income (or expense) on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. Initial direct costs incurred, as lessor, in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Recognition and measurement (under AASB 16 from 1 July 2019)

NSW Trains as a lessee assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. NSW Trains recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets, except for short-term leases and leases of low-value assets.

From 1 July 2019, NSW Trains recognises a right-of-use asset for most leases. The right-of-use asset and corresponding liability are initially measured at the present value of the future lease payments. Therefore, at that date right-of-use assets includes amounts for right-of-use assets in respect of leases previously treated as operating leases under AASB 117, as well as any arrangements that are assessed as leases under AASB 16 that were not leases under AASB 117.

Note 2 Summary of significant accounting policies (continued)

2.6 Leases (continued)

(i) Right-of-use assets

NSW Trains recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are initially measured at the amount of initial measurement of the lease liability (refer ii below), adjusted by any lease payments made at or before the commencement date and lease incentives, any initial direct costs incurred, and estimated costs of dismantling and removing the asset or restoring the site. NSW Trains has elected to present right-of-use assets separately in the Statement of Financial Position at 1 July 2019.

Subsequent to initial recognition, right of use assets will be measured at cost. The right of use assets are subject to impairment NSW Trains assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, NSW Trains estimates the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. After an impairment loss has been recognised, it is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the net result.

The initial and subsequent measurement of right-of-use assets under leases at significantly below-market terms and conditions that are entered into principally to enable NSW Trains to further its objectives is same as normal right-of-use assets. They are measured at cost, subject to impairment.

Right-of use assets are generally depreciated over the shorter of the asset's useful life and the lease term. Where NSW Trains obtains ownership of the underlying leased asset or if the cost of the right-of-use asset reflects that NSW Trains will exercise a purchase option, NSW Trains will depreciate the right-of-use asset over its useful life.

Right-of-use assets are depreciated on a straight-line basis as follows:

- Coaches 5 years

(ii) Lease liabilities

At the commencement date of the lease, NSW Trains recognises lease liabilities measured at the present value of lease payments to be made over the lease term. Lease payments include:

- fixed payments (including in substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- exercise price of a purchase options reasonably certain to be exercised by the entity; and
- payments of penalties for terminating the lease, if the lease term reflects the entity exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for the entity's leases, the lessee's incremental borrowing rate is used, being the rate that the entity would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. NSW Trains' lease liabilities are included in borrowings.

Note 2 Summary of significant accounting policies (continued)

2.6 Leases (continued)

(iii) Short-term leases and leases of low-value assets

NSW Trains applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

2.7 Income

Income is measured at the fair value of the consideration or contributions received or receivable. In most cases this is the value of the cash exchanged or exchangeable. Income is only recognised if its receipt is probable and the amount is reliably measurable. The accounting policies for the recognition of income are discussed below:

AASB 118 and AASB 1004 (until 30 June 2019)

(i) Passenger services revenue

Proceeds received from the sale of regional tickets are reported as passenger services revenue. Passenger services revenue is initially recognised based on ticket sales. Revenue received prior to passenger travel, and the pro-rata unearned portion of periodic tickets, is assessed annually and treated as deferred revenue.

Opal card is managed by Transport for NSW. Remittance of Opal passenger revenue to NSW Trains is on the basis of journeys undertaken recorded by the electronic ticketing system. Accordingly, no deferred revenue is recognised by NSW Trains.

(ii) Government contributions

Contributions are received from the NSW Government towards the cost of providing certain agreed services, concessions and capital expenditure. The passenger revenue covers only a part of operating expenses and contributions are provided by the NSW Government in the form of subsidies and contributions (refer Statement of Comprehensive Income).

Contributions are recognised when control of the cash or other asset (or the right to receive it) is obtained.

(iii) Sale of goods

Revenue from the sale of assets or other goods is recognised when control and the significant risks and rewards of ownership have passed to the buyer and the past and prospective transaction costs are reliably measurable.

AASB 15 and AASB 1058 (from 1 July 2019)

(iv) Passenger services revenue

Proceeds from OPAL train trips are reported as passenger services revenue. Revenue is recognised when NSW Trains satisfies its performance obligations of providing the rail passenger services to the customer over time. Passenger services revenue is measured at the transaction price which is the price per train trip and includes any discounts provided to customers.

OPAL cards are managed by TfNSW. Remittance of OPAL passenger revenue is on the basis of journeys taken based on the output from the electronic ticketing system as agreed with TfNSW. The payments are typically due when the passenger journey is undertaken by the customer.

Revenue from regional services is recognised when NSW Trains satisfies its performance obligations of providing the rail passenger services when the customer undertakes the train journey. The revenue is measured at the transaction price which is the price per train trip and includes any discounts provided to customers.

Note 2 Summary of significant accounting policies (continued)

2.7 Income (continued)

(v) Government and other contributions

Capital contributions to acquire/construct a recognisable non-financial asset to be controlled by NSW Trains is recognised when NSW Trains obtains control of the cash (i.e. upon receipt).

Personnel services benefit is the long service leave and superannuation on-costs provided free of charge by the Crown for staff employed by Transport Service of New South Wales (TS). NSW Trains recognises the revenue when incurred.

NSW Trains has elected not to recognise revenue from volunteer services in accordance with Treasury mandates.

(vi) Sale of goods

Revenue from sale of assets or other goods is recognised when NSW Trains satisfies its obligation by transferring the promised goods. NSW Trains satisfies its performance obligations when control of the asset or good is transferred to the customer. The payments are typically due when goods are transferred to the customer.

Revenue from these sales is recognised based on the price specified in the contract, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as the sales are made with a short credit term. No volume discount or warranty is provided on the sale.

The presentation of the Statement of Comprehensive Income includes subtotals for the result from operations before and after Government and other Contributions. That presentation has been adopted as it is a more informative representation of the operating result with reference to NSW Trains' sources of funding.

(vii) Investment revenue

Investment revenue comprises of interest income and is recognised as interest accrues. Investment income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit impaired. For financial assets that become credit impaired, the effective interest rate is applied to the amortised cost of the asset (i.e. after deducting the loss allowance for expected credit losses).

2.8 Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position includes cash at bank and on hand, at call deposits, short-term deposits with a maturity of 90 days or less, and highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Note 2 Summary of significant accounting policies (continued)

2.9 Trade and other receivables

Trade receivables are measured initially at fair value and subsequently at invoiced cost less an allowance for impairment / expected credit losses, which is not materially different from amortised cost due to their short-term nature. A trade receivable is usually due for settlement within 30 days of invoicing. Collectability of trade receivables is reviewed on an ongoing basis. Trade receivables that do not contain a significant financing component are measured at the transaction price.

A receivable is recognised when it is probable that the future cash inflows associated with it will be realised and it has a value that can be measured reliably. It is derecognised when the contractual rights to future cash inflows from it expire or are transferred.

If there is objective evidence at year end that a receivable may not be collectable, its carrying amount is reduced by means of an allowance for impairment or allowance for expected credit losses and the resulting loss is recognised in the Statement of Comprehensive Income. Receivables are monitored during the year and bad debts are written off against the allowance when those are determined to be irrecoverable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that trade receivables are impaired.

NSW Trains holds receivables with the objective to collect the contractual cash flows and therefore measures them at amortised cost using the effective interest method subsequent to initial recognition. Changes are recognised in the net result for the year when impaired, derecognised or through the amortisation process.

2.10 Asset maintenance

Sydney Trains performs maintenance of the rail assets, and charges NSW Trains for the maintenance of rolling stock, infrastructure and stations utilised by NSW Trains. RailCorp owns the rail stations, majority of property, certain rolling stock and rail network and provides NSW Trains with access rights to these assets at no additional charge.

2.11 Plant and equipment

(i) Recognition

An item of plant and equipment is recognised as an asset if it has service potential controlled by NSW Trains, is expected at acquisition to be used for more than 1 year, has a cost or value that can be measured reliably and exceeds the capitalisation threshold.

A component is accounted for separately if it (a) has a useful life materially different from that of the prime asset and therefore requires separate replacement during the life of the prime asset, (b) is material enough to justify separate tracking, and (c) is capable of having a reliable value attributed to it.

Expenditure on the acquisition, replacement or enhancement of plant and equipment is capitalised, provided it exceeds the capitalisation threshold.

The capitalisation threshold for a network of plant and equipment items or for an individual (non-networked) item is \$5,000. Expenditure below the capitalisation threshold is charged to the Statement of Comprehensive Income.

An item of plant and equipment in the course of construction is classified as capital work in progress.

Note 2 Summary of significant accounting policies (continued)

2.11 Plant and equipment (continued)

(ii) Measurement

An item of plant and equipment purchased or constructed is initially measured at its cost, which is its fair value on acquisition. This includes the purchase price and any costs directly attributable to bringing it to the location and condition necessary for it to be capable of operating as intended. An item of plant and equipment acquired at no cost, or for a nominal cost, is initially measured at its fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Replacement cost is the written-down cost of an optimised modern equivalent asset. Non-specialised assets with short useful lives are measured at depreciated historical cost as a proxy for fair value, this applies to all assets of NSW Trains. NSW Trains has assessed that any difference between fair value and depreciated historical cost is unlikely to be material.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of acquisition or construction or where applicable the amount attributed to that asset when initially recognised.

(iii) Depreciation

Each item of plant and equipment is depreciated on a straight-line basis over its estimated useful life commencing when the item is available for use.

Each part of an item of plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised as an expense.

In determining an asset's useful life consideration is given to its expected usage, its expected wear and tear, technical or commercial obsolescence and legal or similar limits on its use.

The expected useful lives of items of plant and equipment are as follows:

	<u>Years</u>
Plant and equipment	5 – 20

Each asset's useful life, residual value and depreciation method are reviewed each year and any resulting adjustments are accounted for as a change in accounting estimate.

Note 2 Summary of significant accounting policies (continued)

2.11 Plant and equipment (continued)

(iv) Derecognition

An item of plant and equipment is derecognised either on disposal or when its service potential ceases and it is not expected to have any disposal value.

On derecognition of an item of plant and equipment, any gain or loss or any related compensation receivable is recognised in the Statement of Comprehensive Income.

2.12 Intangible assets

(i) Recognition

An identifiable, non-monetary asset without physical substance (such as computer software that is not integral to the related hardware) is recognised as an intangible asset if it has service potential controlled by NSW Trains, is expected at acquisition to be used for more than 1 year, and has a cost or value that (a) can be measured reliably, (b) exceeds the capitalisation threshold of \$5,000 and (c) has not previously been expensed.

The service potential is assessed using reasonable and supportable assumptions relating to the estimated conditions likely to exist over the useful life of the asset.

An intangible asset arising from development (or from the development phase of an internal project) is only recognised if it is likely to be completed and actually used and the development expenditure can be measured reliably. Expenditure on research (or on the research phase of an internal project) is not recognised as an intangible asset.

An intangible asset in the course of development is classified as intangible capital work in progress.

(ii) Measurement

An intangible asset that is purchased or internally developed is initially measured at its cost. This includes the purchase price and any costs directly attributable to preparing the asset for its intended use. An intangible asset acquired at no cost, or for a nominal cost, because it is transferred by the government is initially measured at its fair value, which is based on its amortised cost as recognised by the transferor. After initial recognition, such assets are accounted for under the cost model.

Due to the absence of active markets for intangible assets, they are not subsequently revalued but continue to be carried at cost less any accumulated amortisation.

(iii) Amortisation

Each intangible asset is amortised on a straight-line basis over its estimated useful life commencing when the item is available for use. Useful lives are all finite. Residual values are assumed to be zero, due to the absence of active markets for disposing of the assets.

In determining the asset's useful life, consideration is given to its expected usage, technical, technological, commercial or other types of obsolescence, legal or similar limits on its use, and whether its life is dependent on the useful life of other assets.

The expected useful life of an item of software is 5 years.

Each intangible asset's useful life and amortisation method are reviewed each year and any resulting adjustments are accounted for as a change in accounting estimate.

Note 2 Summary of significant accounting policies (continued)

2.12 Intangible assets (continued)

(iii) Amortisation (continued)

The amortisation charge for each year is recognised in the Statement of Comprehensive Income as a depreciation and amortisation expense.

(iv) Derecognition

An intangible asset is derecognised either on disposal or when its service potential ceases and it is not expected to have any disposal value. On derecognition any gain or loss is recognised in the Statement of Comprehensive Income.

2.13 Trade and other payables

A payable is recognised on the Statement of Financial Position when a present obligation arises under a contract. It is derecognised when the obligation expires or is discharged, cancelled or substituted.

A payable is measured at original invoice amount, which is not materially different from amortised cost due to the short-term nature of trade payables.

Any gain or loss arising when a payable is settled or transferred is recognised in the Statement of Comprehensive Income.

Trade payables are unsecured and unless otherwise agreed with the creditor, are due for settlement by the end of the month following the month in which the invoice is received.

2.14 Provisions

(i) Provisions generally

Provisions are made for liabilities of uncertain amount or uncertain timing of settlement, e.g. employee benefits, workers' compensation claims, public liability claims, legal claims and other charges.

A provision is recognised when (a) there is a likely present legal or constructive obligation as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation.

The amount recognised is the best estimate of the expenditure required to settle the likely present obligation as at reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision. Where the effect of the time value of money is material, a provision is measured using the present value of the expenditure expected to be required to settle the obligation and using a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Each provision is reviewed as at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that a settlement will be required, the provision is reversed. A provision is only used for its intended purpose.

Note 2 Summary of significant accounting policies (continued)

2.14 Provisions (continued)

(ii) Employee benefits

Superannuation, long service leave, annual leave, and award leave liabilities are recognised as provisions when the obligations arise, which is usually through the rendering of service by employees. Expenditure creating such provisions is either expensed or capitalised, depending on its nature.

Short – term obligations

Liabilities for short-term employee benefits including wages and salaries and non-monetary benefits are measured at the amount expected to be paid when the liability is settled, if it is expected to be settled wholly before 12 months after the end of the reporting period. Non-accumulating sick leave is recognised when the leave is taken and measured at the rates payable.

Other long – term obligations

The liability for other long-term employee benefits such as annual leave and long service leave is recognised in current provisions regardless of the expected timing of settlements, if there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting date, otherwise it would be classified as a non-current liability.

It is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Retirement benefit obligations

All employees of NSW Trains are entitled to benefits on retirement, disability or death, from the superannuation plans contributed to by NSW Trains. The plans are either defined benefit plans or defined contribution plans. The defined benefit plans provide defined lump sum benefits based on years of service and final average salary. The defined contribution plans receive fixed contributions from NSW Trains, and its legal or constructive obligation is limited to these contributions.

A liability or asset in respect of a defined benefit superannuation plan is recognised in the Statement of Financial Position, and is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in Other Comprehensive Income. They are included in accumulated losses in the Statement of Changes in Equity and in the Statement of Financial Position. Past service cost are recognised in the Statement of Comprehensive Income immediately.

Contributions to the defined contribution plans are recognised as an expense as they become payable.

Note 2 Summary of significant accounting policies (continued)

2.14 Provisions (continued)

(ii) Employee benefits (continued)

Termination Benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts an offer of benefits in exchange for the termination of employment. NSW Trains recognises termination benefits either when it can no longer withdraw the offer of those benefits or when it has recognised costs for restructuring within the scope of *AASB 137 Provisions, Contingent Liabilities and Contingent Assets* that involves the payment of termination benefits, or when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits not expected to be settled wholly before 12 months after the end of the reporting period are discounted to present value.

2.15 Contributed equity

In accordance with TPP 09-3 *Accounting Policy: Contribution by owners made to wholly-owned public sector entities*, a transfer of assets (or liabilities) from (or to) another NSW public sector entity is treated as a contribution by (or distribution to) the Government and recognised as contributed equity.

2.16 Critical accounting estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying NSW Trains accounting policies. The estimates and underlying assumptions are reviewed on an ongoing basis. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

(i) Judgements

Note 15 - Commitments: whether an arrangement contains a lease.

(ii) Assumptions and estimation of uncertainties

Note 10 - Measurement of defined benefit obligations: key actuarial assumptions

Note 10 - Measurement of long service leave obligations: key actuarial assumptions

Note 10 - Measurement of workers compensation obligations: key actuarial assumptions.

2.17 Personnel service expenses

Personnel service expenses include salaries and wages, and related costs for contract staff employed by Transport Service of New South Wales and other agencies within the Department of Transport Group. NSW Trains recognises the expenses when incurred. Refer Note 4.3.

2.18 Offsetting financial assets and liabilities

NSW Trains does not offset its financial assets and liabilities and has no offsetting arrangements in place.

Notes to the Financial Statements for the year ended 30 June 2020

Note 2 Summary of significant accounting policies (continued)

2.19 Contract Assets and Liabilities

Contract assets relate to NSW Trains' right to consideration in exchange for goods transferred to customers/works completed, but not billed at the reporting date. The balance of contract assets at 30 June 2020 is nil.

Contract liabilities relate to consideration received in advance from customers in respect to regional passenger services. The balance of contract liabilities at 30 June 2020 was impacted by the volume of regional services which are booked in advance.

Note 3 Income

3.1 Sale of goods and services from contracts with customers / Non passenger revenue

	2019-20 \$'000	2018-19 \$'000
Passenger services revenue	96,119	-
Labour cost recovery	20,098	13,579
Cost recovery for services performed	7	11
Catering revenue	5,542	7,746
Recoveries for interstate services	12,788	12,740
Other revenue	422	466
Total sale of goods and services from contracts with customers / Non passenger revenue*	134,976	34,542

*The category 'Non passenger revenue' applies to the prior year only.

3.2 Government and other contributions

	2019-20 \$'000	2018-19 \$'000
Capital	2,750	5,883
Operating	692,223	630,812
Redundancy	664	2,934
Personnel service benefit	514	785
Total government and other contributions	696,151	640,414

Notes to the Financial Statements for the year ended 30 June 2020

Note 4 Expenses

4.1 Employee related expenses

Employee related expenses include the following items:

	Note	2019-20 \$'000	2018-19 \$'000
Salaries and wages		199,457	191,142
Annual leave		19,374	18,255
Long service leave		8,471	10,618
Superannuation - defined benefit plan	4.2	6,117	7,299
Superannuation - defined contribution plan		14,646	13,627
Workers compensation		7,708	6,172
Payroll tax and fringe benefits tax		13,499	13,178
Redundancy		1,019	3,042
Other employee-related expenses		4,000	2,399
Total employee related expenses		274,291	265,732

\$26k employee related costs have been capitalised in plant and equipment and intangible assets (2018-19: Nil excluded from the above).

4.2 Defined benefit superannuation expense

	Note	2019-20 \$'000	2018-19 \$'000
Current service cost		3,526	3,766
Net Interest		2,591	3,533
Total defined benefit superannuation expense/(income)	10.2	6,117	7,299

4.3 Personnel service expenses

	2019-20 \$'000	2018-19 \$'000
Salaries and wages	10,690	11,267
Annual leave	1,041	1,007
Long service leave	440	720
Superannuation - defined benefit plan	70	62
Superannuation - defined contribution plan	1,018	1,079
Workers compensation	35	33
Payroll tax and fringe benefit tax	729	802
Redundancy	146	1,005
Total personnel service expenses	14,169	15,975

Notes to the Financial Statements for the year ended 30 June 2020

Note 4 Expenses (continued)

4.4 Other operating expenses

	Note	2019-20 \$'000	2018-19 \$'000
Other contractors		26,526	24,520
Materials		6,145	7,934
Bussing expenses		30,854	23,896
Track access fee		20,486	21,548
Insurance costs		504	501
Information technology		4,494	4,433
Corporate and shared services costs from TfNSW		19,519	18,463
Travelling expenses		3,700	3,418
Advertising and marketing		92	246
Printing & stationery		858	1,015
Audit fees - audit of financial statements		168	164
Expense relating to short term leases		1,035	-
Service costs from Rail entities*		462,791	454,470
Other		10,428	7,304
Total other operating expenses		587,600	567,912

*Service costs from Rail entities including Asset Maintenance \$384m, Customer service \$20m, Operations \$59m and Other nil. (2018-19: Asset maintenance \$363m, Customer service \$20m, Operations \$66m and Other \$6m.)

4.5 Finance costs

	2019-20 \$'000	2018-19 \$'000
Interest expense from lease liabilities	35	-
Total finance costs	35	-

Notes to the Financial Statements for the year ended 30 June 2020

Note 5 Cash and cash equivalents

5.1 Cash and cash equivalents

	30.6.2020 \$'000	30.6.2019 \$'000
Cash at bank	88,125	141,399
Cash on hand and in transit	31	318
Total cash and cash equivalents	88,156	141,717

The above cash and cash equivalent reconciles to the statement of cash flows.

5.2 Reconciliation of net result for the year with net cash from operating activities

	\$'000	\$'000
Net result for the year	(47,215)	(47,355)
Cash capital grants	(2,750)	(5,883)
Depreciation and amortisation	3,668	529
Impairment losses/(gains) on financial assets	12	(9)
Write off assets	843	1,090
Net movements in assets and liabilities applicable to operating activities:		
(Increase)/decrease in trade and other receivables	6,179	(5,262)
Increase/(decrease) in trade and other payables and provisions	(14,077)	14,980
Increase/(decrease) in contract liabilities	830	-
Net cash flows from/(used in) operating activities	(52,510)	(41,910)

5.3 Non-cash investing activities

During 2019-20, Capital work in progress of \$7.1m was transferred to RailCorp (2018-19: Nil). Refer Note 14.2 for details.

5.4 Credit standby arrangements and loan facilities

The credit standby arrangement and unused amounts available are:

	30.6.2020 Credit Facilities \$'000	30.6.2020 Unused \$'000	30.6.2019 Credit Facilities \$'000	30.6.2019 Unused \$'000
Transaction negotiation authority	30,000	30,000	30,000	30,000
Purchasing card facility	10,000	6,214	10,000	6,150
Come and Go facility	30,000	30,000	30,000	30,000
Total credit standby arrangements and loan facilities	70,000	66,214	70,000	66,150

* As at 30 June 2020, the purchasing cards issued had a combined limit of \$3.79m (2019: \$3.85m) with a payable of \$0.2m (2019: \$0.3m).

Notes to the Financial Statements for the year ended 30 June 2020

Note 6 Trade and other receivables

6.1 Trade and other receivables

	30.6.2020 \$'000	30.6.2019 \$'000
Current trade and other receivables		
Trade receivables from contracts with customers	17,132	-
Sale of goods and services	-	252
Inter entity receivables	-	12,882
Other receivables	1,432	13,024
Retained taxes, fees and fines	1,212	-
Less: allowance for expected credit losses*	(17)	(3)
Total current trade and other receivables	19,759	26,155
*The allowance for trade receivables from contracts with customers is \$17k in the current year.		
Movements in the allowance for expected credit losses balance is as follows:		
Balance at 30 June 2018 (under AASB 139)		71
Amounts restated through opening retained earnings		(53)
GST movement		(6)
Opening balance (under AASB 9)	3	12
Allowance recognised in Statement of Comprehensive Income**	12	(9)
GST movement	2	-
Closing balance	17	3

** The impairment losses for contracts with customers is \$12k in the current year.

6.2 Aging analysis

The loss allowance for trade debtors as at 30 June is determined as follows:

	Current \$'000	<30 days \$'000	30-60 days \$'000	61-90 days \$'000	>91 days \$'000	Total \$'000
30 June 2020						
Expected average credit loss rate	2.00%	4.00%	6.00%	8.00%	61.93%	
Estimated total gross carrying amount of default	38	7	1	2	26	74
Expected credit loss	1	-	-	-	16	17
30 June 2019						
Expected average credit loss rate	0.00%	0.00%	0.00%	0.00%	17.65%	
Estimated total gross carrying amount of default	138	49	10	15	17	229
Expected credit loss	-	-	-	-	3	3

Note: The analysis excludes statutory receivables, prepayments, as these are not within the scope of AASB 7 hence the 'total' will not reconcile to the receivables total in Note 6.1.

6.3 Nature and extent of risk arising from receivables

Information about NSW Trains' exposure to credit risk in relation to trade and other receivables is provided in Note 17.4.

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

Notes to the Financial Statements for the year ended 30 June 2020

Note 7 Plant and equipment

7.1 Classes

	30.6.2020 \$'000	30.6.2019 \$'000
Plant and machinery		
Gross carrying amount	2,473	2,317
Less accumulated depreciation	(2,195)	(2,117)
Total plant and machinery	278	200
Capital work in progress		
Capital works in progress	4,225	10,668
Total capital work in progress	4,225	10,668
Total property, plant and equipment	4,503	10,868

7.2 Asset class movement

	Plant and equipment \$'000	Capital work in progress \$'000	Total \$'000
Year ended 30 June 2020			
Net carrying amount as at 1 July 2019	200	10,668	10,868
Additions	-	1,510	1,510
Completed capital work	156	(156)	-
Disposals/derecognition/write-offs	-	(843)	(843)
Depreciation expense	(78)	-	(78)
Transfer to RailCorp	-	(6,954)	(6,954)
Net carrying amount as at 30 June 2020	278	4,225	4,503
Year ended 30 June 2019			
Net carrying amount as at 1 July 2018	207	7,554	7,761
Additions	-	4,262	4,262
Completed capital work	59	(59)	-
Disposals/derecognition/write-offs	(1)	(1,089)	(1,090)
Depreciation expense	(65)	-	(65)
Net carrying amount as at 30 June 2019	200	10,668	10,868
Gross Carrying amount			
At 1 July 2018	2,259	7,554	9,813
At 30 June 2019	2,317	10,668	12,985
At 1 July 2019	2,317	10,668	12,985
At 30 June 2020	2,473	4,225	6,698
Accumulated depreciation			
At 1 July 2018	(2,052)	-	(2,052)
At 30 June 2019	(2,117)	-	(2,117)
At 1 July 2019	(2,117)	-	(2,117)
At 30 June 2020	(2,195)	-	(2,195)
Net carrying amount			
At 1 July 2018	207	7,554	7,761
At 30 June 2019	200	10,668	10,868
At 1 July 2019	200	10,668	10,868
At 30 June 2020	278	4,225	4,503

Notes to the Financial Statements for the year ended 30 June 2020

Note 8 Intangible assets

8.1 Classes

	30.6.2020 \$'000	30.6.2019 \$'000
Software		
Gross carrying amount	26,725	20,906
Less accumulated amortisation	(21,497)	(19,649)
Net carrying amount of software / licenses work in progress	5,228	1,257
Software work in progress	196	5,620
Total intangible assets	5,424	6,877

8.2 Asset class movement

	Software \$'000	Software work in progress \$'000	Total \$'000
2020			
Net carrying amount at start of year	1,257	5,620	6,877
Additions	-	561	561
Completed capital work	5,819	(5,819)	-
Amortisation expense	(1,848)	-	(1,848)
Transfer to RailCorp	-	(166)	(166)
Net carrying amount at end of year	5,228	196	5,424
2019			
Net carrying amount at start of year	902	5,249	6,151
Additions	-	1,190	1,190
Amortisation expense	(464)	-	(464)
Transfers	819	(819)	-
Net carrying amount at end of year	1,257	5,620	6,877

Note 9 Trade and other payables

9.1 Current trade and other payables

	30.6.2020 \$'000	30.6.2019 \$'000
Trade payables	2,673	7,787
Inter entity payables	18,340	38,880
Accrued salaries, wages and on-costs	10,341	9,781
Other payables and accruals	10,267	8,658
Unearned revenue	-	2,328
Total current trade and other payables	41,621	67,434

Details regarding liquidity risk, including a maturity analysis of the above payables are disclosed in Note 17.5.

9.2 Fair value

Due to the short-term nature of current trade and other payables, their carrying value is deemed to approximate their fair value.

Notes to the Financial Statements for the year ended 30 June 2020

Note 10 Provisions

10.1 Provisions

	Note	30.6.2020 \$'000	30.6.2019 \$'000
Current provisions			
Annual leave (see note (a) below)		30,719	29,044
Long service leave (see note (a) below)	10.3	55,136	52,496
Pay in lieu of certain holidays worked (see note (a) below)		2,545	2,281
Workers compensation	10.5	4,785	4,775
Total current employee benefits and related on-costs		93,185	88,596
Public liability claims	10.6	547	367
Legal claims	10.7	1,000	-
Other provisions	10.8	3,000	-
Total other provisions		4,547	367
Total current provisions		97,732	88,963
Non-Current provisions			
Superannuation	10.2	205,808	198,091
Long service leave (see note (a) below)	10.3	1,988	1,951
Workers compensation	10.5	10,327	10,118
Total non-current employee benefits		218,123	210,160
Total non-current provisions		218,123	210,160
Total provisions			
Superannuation	10.2	205,808	198,091
Annual leave		30,719	29,044
Long service leave	10.3	57,124	54,447
Pay in lieu of certain holidays worked		2,545	2,281
Workers compensation	10.5	15,112	14,893
Total employee benefits and related on-costs		311,308	298,756
Public liability claims	10.6	547	367
Legal claims	10.7	1,000	-
Other provisions	10.8	3,000	-
Total other provisions		4,547	367
Total provisions		315,855	299,123

(a) In accordance with Australian Accounting Standards all annual leave, pay in lieu of certain holidays worked and unconditional long service leave is classified as a current liability in the Statement of Financial Position because NSW Trains does not have an unconditional right to defer settlement. Only conditional long service leave is shown as a non-current liability. However, on the basis of past payment experience, leave is expected to be settled in the following pattern:

Notes to the Financial Statements for the year ended 30 June 2020

Note 10 Provisions (continued)

10.1 Provisions (continued)

	Within 12 months \$'000	Later than 12 months \$'000	Total \$'000
2020			
Long service leave	7,042	50,082	57,124
Annual leave	20,719	10,000	30,719
Pay in lieu of certain holidays worked	2,545	-	2,545
	30,306	60,082	90,388
2019			
Long service leave	8,020	46,427	54,447
Annual leave	21,355	7,689	29,044
Pay in lieu of certain holidays worked	2,281	-	2,281
	31,656	54,116	85,772

Note 10 Provisions (continued)

10.2 Superannuation

Overview

Employer contributions are made to 3 defined-benefit superannuation schemes. An underfunded scheme is recognised as a provision and an overfunded scheme is recognised as an asset. Details of both provisions and assets are given below.

Nature of the benefits provided by the fund

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- State Authorities Non-contributory Superannuation Scheme (SANCS).

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal.

All the schemes are closed to new members.

Description of the regulatory framework

The schemes in the Pooled Fund are established and governed by the following NSW legislation: Superannuation Act 1916, State Authorities Superannuation Act 1987, Police Regulation (Superannuation) Act 1906, State Authorities Non-Contributory Superannuation Act 1987, and their associated regulations.

The schemes in the Pooled Fund are exempt public sector superannuation schemes under the Commonwealth Superannuation Industry (Supervision) Act 1993 (SIS). The SIS Legislation treats exempt public sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

Under a Heads of Government agreement, the New South Wales Government undertakes to ensure that the Pooled Fund will conform with the principles of the Commonwealth's retirement incomes policy relating to preservation, vesting and reporting to members and that members' benefits are adequately protected.

The New South Wales Government prudentially monitors and audits the Pooled Fund and the Trustee Board activities in a manner consistent with the prudential controls of the SIS legislation. These provisions are in addition to other legislative obligations on the Trustee Board and internal processes that monitor the Trustee Board's adherence to the principles of the Commonwealth's retirement incomes policy.

An actuarial investigation of the Pooled Fund is performed every three years. The last actuarial investigation was performed as at 30 June 2018. The next actuarial investigation will be performed as at 30 June 2021.

Unless otherwise indicated, the paragraph references in Note 10 refer to AASB 119 *Employee Benefits*.

Description of other entities' responsibilities for the governance of the fund

The Fund's Trustee is responsible for the governance of the Fund. The Trustee has a legal obligation to act solely in the best interests of fund beneficiaries. The Trustee has the following roles:

- Administration of the fund and payment to the beneficiaries from fund assets when required in accordance with the fund rules;
- Management and investment of the fund assets; and
- Compliance with other applicable regulations.

Notes to the Financial Statements for the year ended 30 June 2020

Note 10 Provisions (continued)

10.2 Superannuation (continued)

Description of risks

There are a number of risks to which the Fund exposes the Employer. The more significant risks relating to the defined benefits are:

- **Investment risk** - The risk that investment returns will be lower than assumed and the Employer will need to increase contributions to offset this shortfall.
- **Longevity risk** - The risk that pensioners live longer than assumed, increasing future pensions.
- **Pension indexation risk** - The risk that pensions will increase at a rate greater than assumed, increasing future pensions.
- **Salary growth risk** - The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- **Legislative risk** - The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit fund assets are invested with independent fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

Description of significant events

There were no fund amendments, curtailments or settlements during the year.

30 June 2020

The following is the 30 June 2020 superannuation position:

Member numbers	SASS 30-Jun-20	SANCS 30-Jun-20	SSS 30-Jun-20	Total 30-Jun-20
Contributors	364	365	1	
Pensioners	75	-	-	
Superannuation Position for AASB 119 purposes	\$'000	\$'000	\$'000	\$'000
Accrued liability (Note 1)	427,735	34,046	1,931	463,712
Estimated reserve account balance	(236,693)	(20,452)	(759)	(257,904)
1. Deficit/(surplus)	191,042	13,594	1,172	205,808
2. Future Service Liability (Note 2)	-	-	-	-
3. Surplus in excess of recovery available from schemes (- 1. -2. and subject to a minimum of zero)	-	-	-	-
4. Net (asset)/liability to be recognised in statement of financial position (1.+3.)	191,042	13,594	1,172	205,808

Note 1:

The accrued liability includes a contribution tax provision. This is calculated based on grossing up the deficit/(surplus) less the allowance for past service expenses and insurable death and disability liabilities at a contribution tax rate of 15%.

Note 2:

The Future Service Liability (FSL) does not have to be recognised by an employer. It is only used to determine if an asset ceiling limit should be imposed (AASB 119 para 64). Under AASB 119, any prepaid superannuation asset recognised cannot exceed the present value of any economic benefits that may be available in the form of refunds from the plan or reductions in future contributions to the plan. Where the "surplus in excess of recovery" is zero, no asset ceiling limit is imposed. (Note: this also includes a contribution tax provision).

Notes to the Financial Statements for the year ended 30 June 2020

Note 10 Provisions (continued)

10.2 Superannuation (continued)

Reconciliation of the Net Defined Benefit Liability/ (Asset) - Para 140(a)

	SASS	SANCS	SSS	Total
	\$'000	\$'000	\$'000	\$'000
Net Defined Benefit Liability/(Asset) at start of year	184,678	12,422	991	198,091
Current service cost	2,302	1,174	50	3,526
Net Interest on the net defined benefit liability/(asset)	2,421	157	13	2,591
Actual return on Fund assets less Interest income	(2,415)	(248)	(7)	(2,670)
Actuarial (gains)/losses arising from changes in financial assumptions	14,624	1,018	161	15,803
Actuarial (gains)/losses arising from liability experience	(8,142)	245	(36)	(7,933)
Employer contributions	(2,426)	(1,174)	-	(3,600)
Net Defined Benefit Liability/(Asset) at end of year	191,042	13,594	1,172	205,808

Reconciliation of the Fair Value of Fund Assets – Para 140(a)(i)

	SASS	SANCS	SSS	Total
	\$'000	\$'000	\$'000	\$'000
Fair value of Fund assets at beginning of the year	253,926	22,338	754	277,018
Interest income	3,212	278	10	3,500
Actual return on Fund assets less Interest income	2,415	248	7	2,670
Employer contributions	2,426	1,174	-	3,600
Contributions by participants	2,081	-	8	2,089
Benefits paid	(26,176)	(3,446)	(9)	(29,631)
Taxes, premiums & expenses paid	(1,191)	(140)	(11)	(1,342)
Fair value of fund assets at end of the year	236,693	20,452	759	257,904

Notes to the Financial Statements for the year ended 30 June 2020

Note 10 Provisions (continued)

10.2 Superannuation (continued)

Reconciliation of the Defined Benefit Obligation – Para 140(a)(ii)

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Present value of defined benefit obligations at beginning of the year	438,604	34,760	1,745	475,109
Current service cost	2,302	1,174	50	3,526
Interest cost	5,633	435	23	6,091
Contributions by participants	2,081	-	8	2,089
Actuarial (gains)/losses from changes in financial assumption	14,624	1,018	161	15,803
Actuarial (gains)/losses from liability experience	(8,142)	245	(36)	(7,933)
Benefits paid	(26,176)	(3,446)	(9)	(29,631)
Taxes, premiums & expenses paid	(1,191)	(140)	(11)	(1,342)
Present value of defined benefit obligations at end of the year	427,735	34,046	1,931	463,712

Notes to the Financial Statements for the year ended 30 June 2020

Note 10 Provisions (continued)

10.2 Superannuation (continued)

Fair value of Fund assets - Para 142

All Pooled Fund assets are invested by SAS Trustee Corporation (STC) at arm's length through independent fund managers, assets are not separately invested for each entity and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. As such, the disclosures below relate to total assets of the Pooled Fund.

As at 30 June 2020

		Quoted prices in active markets for identical assets Level 1	Significant observable inputs Level 2	Unobservable inputs Level 3
Asset category	Total \$'000	\$'000	\$'000	\$'000
Short Term Securities	4,096,298	1,889,511	2,206,787	-
Australian Fixed Interest	1,066,448	-	1,066,448	-
International Fixed Interest	1,909,424	30,409	1,879,015	-
Australian Equities	7,294,211	6,901,927	392,284	-
International Equities	11,950,330	11,487,308	463,022	-
Property	3,352,466	644,805	16,266	2,691,395
Alternatives	10,522,833	23,408	4,337,075	6,162,350
Total	40,192,010	20,977,368	10,360,897	8,853,745

The percentage invested in each asset class at the reporting date is:

As at	30-Jun-20
Short Term Securities	10.2%
Australian Fixed Interest	2.7%
International Fixed Interest	4.8%
Australian Equities	18.1%
International Equities	29.7%
Property	8.3%
Alternatives	26.2%
Total	100.0%

Level 1 - quoted prices in active markets for identical assets or liabilities. The assets in this level are listed shares; listed unit trusts.

Level 2 - inputs other than quoted prices observable for the asset or liability either directly or indirectly. The assets in this level are cash; notes; government, semi-government and corporate bonds; unlisted trusts where quoted prices are available in active markets for identical assets or liabilities.

Level 3 - inputs for the asset or liability that are not based on observable market data. The assets in this level are unlisted property; unlisted shares; unlisted infrastructure; distressed debt; hedge funds.

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cash flow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing of the investment portfolio. As such managers make limited use of derivatives.

Fair value of entity's own financial instruments - Para 143

The fair value of the Pooled Fund assets as at 30 June 2020 includes \$36.9 million in NSW government bonds.

Of the direct properties owned by the Pooled Fund:

SAS Trustee Corporation occupies part of a property 100% owned by the Pooled Fund with a fair value of \$340 million.

Health Administration Corporation occupies part of a property 50% owned by the Pooled Fund with a fair value (100% interest) of \$343 million.

Notes to the Financial Statements for the year ended 30 June 2020

Note 10 Provisions (continued)

10.2 Superannuation (continued)

Significant Actuarial Assumptions at the Reporting Date - Para 144

Discount rate	0.87% pa
Salary increase rate (excluding promotional increases)	3.2% pa
Rate of CPI increase	1.00% for 2019/20; 0.25% for 2020/21; 1.50% for 2021/22; 1.25% for 2022/23; 1.75% for 2023/24; 2.00% for 2024/25 and 2025/26; 2.25% pa to 2029/30; 2.50% pa thereafter
Pensioner mortality	The pensioner mortality assumptions are as per the 2018 Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the trustee's website. The report shows the pension mortality rates for each age.

Notes to the Financial Statements for the year ended 30 June 2020

Note 10 Provisions (continued)

10.2 Superannuation (continued)

Sensitivity Analysis - Para 145

The entity's total defined benefit obligation as at 30 June 2020 under several scenarios is presented below. The total defined benefit obligation disclosed is inclusive of the contribution tax provision which is calculated based on the asset level at 30 June 2020.

Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios G and H relate to sensitivity to demographic assumptions.

	Base Case	Scenario A -0.5% discount rate	Scenario B +0.5% discount rate
Discount rate	as above	as above -0.5% pa	as above +0.5% pa
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above	as above
Defined benefit obligation (A\$'000)	463,712	493,681	436,987

	Base Case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase
Discount rate	as above	as above	as above
Rate of CPI increase	as above	as above +0.5% pa	as above -0.5% pa
Salary inflation rate	as above	as above	as above
Defined benefit obligation (A\$'000)	463,712	483,127	446,122

	Base Case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	as above	as above	as above
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above +0.5% pa	as above -0.5% pa
Defined benefit obligation (A\$'000)	463,712	472,351	455,401

	Base Case	Scenario G Lower Mortality*	Scenario H Higher Mortality**
Defined benefit obligation (A\$'000)	463,712	472,468	459,809

*Assumes the short term pensioner mortality improvement factors for years 2020-2023 also apply for years after 2023.

**Assumes the long term pensioner mortality improvement factors for years post 2023 also apply for the years 2020 to 2023.

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

Notes to the Financial Statements for the year ended 30 June 2020

Note 10 Provisions (continued)

10.2 Superannuation (continued)

Asset-Liability matching strategies - Para 146

The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cash flows to manage liquidity requirements. No explicit asset-liability matching strategy is used by the Trustee.

Funding arrangements - Para 147(a)

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review. Contribution rates are set after discussions between the employer, STC and NSW Treasury.

Funding positions are reviewed annually and funding arrangements may be adjusted as required after each annual review.

Surplus/deficit

The following is a summary of the 30 June 2020 financial position of the Fund calculated in accordance with AASB 1056 Accounting standard "Superannuation Entities" :

	SASS	SANCS	SSS	Total
	\$'000	\$'000	\$'000	\$'000
Accrued benefits*	250,661	24,266	538	275,465
Net market value of Fund assets	(236,693)	(20,452)	(759)	(257,904)
Net (surplus)/deficit	13,968	3,814	(221)	17,561

*There is no allowance for a contribution tax provision within the Accrued Benefits figure for AASB 1056. Allowance for contributions tax is made when setting the contribution rates.

Contribution recommendations

Recommended contribution rates for the entity are:

	SASS	SANCS	SSS
	multiple of member	% member	member
	contributions	salary	contributions
	N/A	N/A	N/A

Economic assumptions

The economic assumptions adopted for 30 June 2020 AASB 1056 Accounting Standard "Superannuation Entities":

Weighted-Average Assumptions

Expected rate of return on Fund assets backing current pension liabilities	7.0% pa
Expected rate of return on Fund assets backing other liabilities	6.0% pa
Expected salary increase rate (excluding promotional salary increases)	3.2% pa
Expected rate of CPI increase	2.0% pa

Notes to the Financial Statements for the year ended 30 June 2020

Note 10 Provisions (continued)

10.2 Superannuation (continued)

Sensitivity Analysis

In light of the current environment due to COVID-19, there is increased volatility in terms of expected outcomes especially in the short to medium term. The information on sensitivities for paragraph 145 provides a guide to how this could affect the defined benefit obligation.

For AASB 1056, separate sensitivities are not included. However, the assumptions for CPI, Salary and demographics are broadly the same under both reporting standards. While the underlying liability amounts for AASB 1056 are lower than for AASB 119, the sensitivity of results under AASB 119 gives an indication to the directional and proportional impact of the changes in these assumptions.

The one assumption that differs substantially under the two standards is the expected rate of return on the fund assets (discount rate). Due to this variation and the potential for material variation in the rate of return on fund assets in current financial conditions, the sensitivities to this assumption for the AASB 1056 results is shown below:

Scenarios A and B relate to sensitivity of the Total Accrued Benefits figure shown in the AASB 1056 results.

	Base case	Scenario A -0.5% Discount rate	Scenario B +0.5% Discount rate
Expected rate of return on Fund assets backing current pension liabilities (discount rate)	7.0% pa	6.5% pa	7.5% pa
Expected rate of return on Fund assets backing other liabilities (discount rate)	6.0% pa	5.5% pa	6.5% pa
Rate of CPI increase	2.0% pa	as base case	as base case
Salary inflation rate	3.2% pa	as base case	as base case
Accrued benefits (\$'000)	275,465	283,661	267,906

Notes to the Financial Statements for the year ended 30 June 2020

Note 10 Provisions (continued)

10.2 Superannuation (continued)

Expected contributions - Para 147(b)

	SASS	SANCS	SSS	Total
	\$'000	\$'000	\$'000	\$'000
Expected employer contributions	3,600	-	-	3,600

Maturity profile of defined benefit obligation - Para 147(c)

The weighted average duration of the defined benefit obligation is 12.6 years.

Profit or Loss Impact

	SASS	SANCS	SSS	Total
	\$'000	\$'000	\$'000	\$'000
Current service cost	2,302	1,174	50	3,526
Net interest	2,421	157	13	2,591
Profit or loss component of the Defined Benefit Cost	4,723	1,331	63	6,117

Other Comprehensive Income

	SASS	SANCS	SSS	Total
	\$'000	\$'000	\$'000	\$'000
Actuarial (gains) losses on liabilities	6,482	1,263	126	7,871
Actual return on Fund assets less Interest income	(2,415)	(248)	(7)	(2,670)
Total remeasurement in Other Comprehensive Income	4,067	1,015	119	5,201

Notes to the Financial Statements for the year ended 30 June 2020

Note 10 Provisions (continued)

10.2 Superannuation (continued)

30 June 2019

The following is the 30 June 2019 superannuation position:

Member numbers	SASS 30-Jun-19	SANCS 30-Jun-19	SSS 30-Jun-19	Total 30-Jun-19
Contributors	407	408	1	
Pensioners	60	-	-	
Superannuation Position for AASB 119 purposes	\$'000	\$'000	\$'000	\$'000
Accrued liability (Note 1)	438,604	34,760	1,745	475,109
Estimated reserve account balance	(253,926)	(22,338)	(754)	(277,018)
1. Deficit/(surplus)	184,678	12,422	991	198,091
2. Future Service Liability (Note 2)	7,009	8,375	227	15,611
3. Surplus in excess of recovery available from schemes (- 1. -2. and subject to a minimum of zero)	-	-	-	-
4. Net (asset)/liability to be recognised in statement of financial position (1.+3.)	184,678	12,422	991	198,091

Note 1:

The accrued liability includes a contribution tax provision. This is calculated based on grossing up the deficit/(surplus) less the allowance for past service expenses and insurable death and disability liabilities at a contribution tax rate of 15%.

Note 2:

The Future Service Liability (FSL) does not have to be recognised by an employer. It is only used to determine if an asset ceiling limit should be imposed (AASB 119 para 64). Under AASB 119, any prepaid superannuation asset recognised cannot exceed the present value of any economic benefits that may be available in the form of refunds from the plan or reductions in future contributions to the plan. Where the "surplus in excess of recovery" is zero, no asset ceiling limit is imposed. (Note: this also includes a contribution tax provision).

Reconciliation of the Net Defined Benefit Liability/(Asset) - Para 140(a)

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Net Defined Benefit Liability/(Asset) at start of year	125,997	8,597	519	135,113
Current service cost	2,576	1,153	37	3,766
Net Interest on the net defined benefit liability/(asset)	3,291	228	14	3,533
Actual return on Fund assets less Interest income	(12,928)	(1,177)	(38)	(14,143)
Actuarial (gains)/losses arising from changes in demographic assumptions	373	53	1	427
Actuarial (gains)/losses arising from changes in financial assumptions	62,867	3,032	487	66,386
Actuarial (gains)/losses arising from liability experience	6,102	536	(29)	6,609
Employer contributions	(3,600)	-	-	(3,600)
Net Defined Benefit Liability/(Asset) at end of year	184,678	12,422	991	198,091

Notes to the Financial Statements for the year ended 30 June 2020

Note 10 Provisions (continued)

10.2 Superannuation (continued)

Reconciliation of the Fair Value of Fund Assets – Para 140(a)(i)

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Fair value of Fund assets at beginning of the year	248,132	23,638	707	272,477
Interest income	6,313	580	19	6,912
Actual return on Fund assets less Interest income	12,928	1,177	38	14,143
Employer contributions	3,600	-	-	3,600
Contributions by participants	2,195	-	8	2,203
Benefits paid	(19,144)	(3,112)	(8)	(22,264)
Taxes, premiums & expenses paid	(98)	55	(10)	(53)
Fair value of fund assets at end of the year	253,926	22,338	754	277,018

Reconciliation of the Defined Benefit Obligation – Para 140(a)(ii)

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Present value of defined benefit obligations at beginning of the year	374,129	32,235	1,226	407,590
Current service cost	2,576	1,153	37	3,766
Interest cost	9,604	808	33	10,445
Contributions by participants	2,195	-	8	2,203
Actuarial (gains)/losses from changes in demographic assumptions	373	53	1	427
Actuarial (gains)/losses from changes in financial assumptions	62,867	3,032	487	66,386
Actuarial (gains)/losses from liability experience	6,102	536	(29)	6,609
Benefits paid	(19,144)	(3,112)	(8)	(22,264)
Taxes, premiums & expenses paid	(98)	55	(10)	(53)
Present value of defined benefit obligations at end of the year	438,604	34,760	1,745	475,109

Notes to the Financial Statements for the year ended 30 June 2020

Note 10 Provisions (continued)

10.2 Superannuation (continued)

Fair value of Fund assets - Para 142

All Pooled Fund assets are invested by SAS Trustee Corporation (STC) at arm's length through independent fund managers, assets are not separately invested for each entity and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. As such, the disclosures below relate to total assets of the Pooled Fund.

		Quoted prices in active markets for identical assets	Significant observable inputs	Unobservable inputs
	Total	Level 1	Level 2	Level 3
Asset category	\$'000	\$'000	\$'000	\$'000
Short Term Securities	4,042,116	2,135,561	1,906,555	-
Australian Fixed Interest	2,294,672	4,993	2,289,679	-
International Fixed Interest	1,968,094	6,827	1,952,396	8,871
Australian Equities	8,368,928	7,818,302	547,571	3,055
International Equities	11,387,439	8,795,299	2,592,132	8
Property	3,588,230	698,607	717,079	2,172,544
Alternatives	10,558,182	327,329	5,758,095	4,472,758
Total	42,207,661	19,786,918	15,763,507	6,657,236

The percentage invested in each asset class at the reporting date is:

As at	30-Jun-19
Short Term Securities	9.6%
Australian Fixed Interest	5.4%
International Fixed Interest	4.7%
Australian Equities	19.8%
International Equities	27.0%
Property	8.5%
Alternatives	25.0%
Total	100.0%

Level 1 - quoted prices in active markets for identical assets or liabilities. The assets in this level are listed shares; listed unit trusts.

Level 2 - inputs other than quoted prices observable for the asset or liability either directly or indirectly. The assets in this level are cash; notes; government, semi-government and corporate bonds; unlisted trusts where quoted prices are available in active markets for identical assets or liabilities.

Level 3 - inputs for the asset or liability that are not based on observable market data. The assets in this level are unlisted property; unlisted shares; unlisted infrastructure; distressed debt; hedge funds.

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cash flow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing of the investment portfolio. As such managers make limited use of derivatives.

Fair value of entity's own financial instruments - Para 143

The fair value of the Pooled Fund assets as at 30 June 2019 includes \$97.7 million in NSW government bonds. Of the direct properties owned by the Pooled Fund:

SAS Trustee Corporation occupies part of a property 100% owned by the Pooled Fund with a fair value of \$316 million.

Health Administration Corporation occupies part of a property 50% owned by the Pooled Fund with a fair value (100% interest) of \$331 million.

Notes to the Financial Statements for the year ended 30 June 2020

Note 10 Provisions (continued)

10.2 Superannuation (continued)

Significant Actuarial Assumptions at the Reporting Date - Para 144

Discount rate	1.32% pa
Salary increase rate (excl. promotional increases)	3.2% pa
Rate of CPI increase	1.75% for 2018/19 and 2019/20, 2.00% for 2020/21; 2.25% for 2021/22 and 2022/23; 2.50% pa thereafter.
Pensioner mortality	The pensioner mortality assumptions are as per the 2018 Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the trustee's website. The report shows the pension mortality rates for each age.

Sensitivity Analysis - Para 145

The entity's total defined benefit obligation as at 30 June 2019 under several scenarios is presented below. The total defined benefit obligation disclosed is inclusive of the contribution tax provision which is calculated based on the asset level at 30 June 2019.

Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios G and H relate to sensitivity to demographic assumptions.

	Base case	Scenario A -1.0% Discount rate	Scenario B +1.0% Discount rate
Discount rate	as above	as above -1.0% pa	as above +1.0% pa
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above	as above
Defined benefit obligation (\$'000)	475,109	541,943	422,175
	Base case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of Discount rate
Discount rate	as above	as above	as above
Rate of CPI increase	as above	as above +0.5% pa	as above -0.5% pa
Salary inflation rate	as above	as above	as above
Defined benefit obligation (\$'000)	475,109	495,038	457,070
	Base case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	as above	as above	as above
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above +0.5% pa	as above -0.5% pa
Defined benefit obligation (\$'000)	475,109	484,521	466,063
	Base case	Scenario G Higher Mortality*	Scenario H Lower Mortality**
Defined benefit obligation (\$'000)	475,109	483,725	471,264

*Assumes the short term pensioner mortality improvement factors for years 2019-2023 also apply for years after 2023.

**Assumes the long term pensioner mortality improvement factors for years post 2023 also apply for the years 2019 to 2023.

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

Notes to the Financial Statements for the year ended 30 June 2020

Note 10 Provisions (continued)

10.2 Superannuation (continued)

Asset-Liability matching strategies - Para 146

The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cash flows to manage liquidity requirements. No explicit asset-liability matching strategy is used by the Trustee.

Funding arrangements - Para 147(a)

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review. Contribution rates are set after discussions between the employer, STC and NSW Treasury. Funding positions are reviewed annually and funding arrangements may be adjusted as required after each annual review.

Surplus/deficit

The following is a summary of the 30 June 2019 financial position of the Fund calculated in accordance with AASB 1056 Accounting standard "Superannuation Entities" :

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Accrued benefits*	255,179	24,833	493	280,505
Net market value of Fund assets	(253,926)	(22,338)	(754)	(277,018)
Net (surplus)/deficit	1,253	2,495	(261)	3,487

*There is no allowance for a contribution tax provision within the Accrued Benefits figure for AASB 1056. Allowance for contributions tax is made when setting the contribution rates.

Contribution recommendations

Recommended contribution rates for the entity are:

	SASS multiple of member contributions	SANCS % member salary	SSS member contributions
	N/A	N/A	N/A

Economic assumptions

The economic assumptions adopted for 30 June 2019 AASB 1056 Accounting Standard "Superannuation Entities" are (these assumptions are consistent with the assumptions to be used for the 2019 actuarial investigation of the Pooled Fund):

Weighted-Average Assumptions

Expected rate of return on Fund assets backing current pension liabilities	7.4% pa
Expected rate of return on Fund assets backing other liabilities	6.4% pa
Expected salary increase rate (excluding promotional salary increases)	3.2% pa
Expected rate of CPI increase	2.2% pa

Notes to the Financial Statements for the year ended 30 June 2020

Note 10 Provisions (continued)

10.2 Superannuation (continued)

Sensitivity Analysis

Scenarios A and B relate to sensitivity of the Total Accrued Benefits figure shown in the AASB1056 results.

	Base case	Scenario A -0.5% Discount rate	Scenario B +0.5% Discount rate
Expected rate of return on Fund assets backing current pension liabilities (discount rate)	7.4% pa	6.9% pa	7.9% pa
Expected rate of return on Fund assets backing other liabilities (discount rate)	6.4% pa	5.9% pa	6.9% pa
Rate of CPI increase	2.2% pa	as base case	as base case
Salary inflation rate	3.2% pa	as base case	as base case
Accrued benefits (\$'000)	280,504	288,523	273,110

Expected contributions - Para 147(b)

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Expected employer contributions	3,600	-	-	3,600

Maturity profile of defined benefit obligation - Para 147(c)

The weighted average duration of the defined benefit obligation is 12.6 years.

Profit or Loss Impact

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Current service cost	2,576	1,153	37	3,766
Net interest	3,291	228	14	3,533
Profit or loss component of the Defined Benefit Cost	5,867	1,381	51	7,299

Other Comprehensive Income

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Actuarial (gains) losses on liabilities	69,342	3,621	459	73,422
Actual return on Fund assets less Interest income	(12,928)	(1,177)	(38)	(14,143)
Total remeasurement in Other Comprehensive Income	56,414	2,444	421	59,279

10.3 Long service leave

Long service leave is recognised as an expense and a provision when the obligations arises, which is usually through the rendering of service by an employee.

Long service leave is measured at present value in accordance with AASB 119 Employee Benefits. This is based on the application of certain factors to employees with five or more years of service, using current rates of pay.

The liability for long service leave was assessed by a consulting actuary, Mercer Consulting (Australia) Pty Ltd. The actuary assumed a discount rate of 0.62% (2019: 1.17%) per annum and a salary growth rate of 3% (2019: 3%) per annum and 2.5% per annum thereafter (2019: 2.5%).

Notes to the Financial Statements for the year ended 30 June 2020

Note 10 Provisions (continued)

10.4 Movements in provisions (other than employee benefit provisions)

	Carrying amount at start of year \$'000	Increase in Provision \$'000	Discounting adjustment \$'000	Subtotal \$'000	Payment of claims \$'000	Unused amount reversed \$'000	Carrying amount at end of period \$'000
2020							
Public liability claims	367	247	-	614	(67)	-	547
Legal claims	-	1,000	-	1,000	-	-	1,000
Other provisions	-	3,000	-	3,000	-	-	3,000
2019							
Public Liability Claims	-	367	-	367	-	-	367

10.5 Workers' compensation

Workers' compensation insurance is in place to cover any claim exceeding \$1.5m (2019: \$1.5m) and the workers' compensation provision is maintained for smaller claims, for which NSW Trains is a licensed self-insurer.

The workers' compensation liability at year end was assessed by Marsh Pty Ltd assuming a discount rate ranging from 0.25% to 1.21% per annum over the next 15 years (2019: 0.97% to 1.34% per annum over the next 15 years) and a future wage inflation rate of 2.5% per annum over the next 15 years (2019: 2.5% to 3.3% per annum over the next 15 years).

10.6 Public liability claims

The public liability claims provision recognises claims against NSW Trains that arise from personal injuries or property damage occurring on its premises or involving its assets.

Any claim recoverable from NSW Trains' insurer is also recognised as a receivable or disclosed as a contingent asset, depending on its probability of settlement. Refer Notes 6 and 16.

The liability at year end was assessed by management. The likely amount to be settled was assessed on the basis of past experience. The likely timing of settlement was assessed by reviewing individual claims. The timing of the liability is inherently uncertain due to disputes over the quantum of individual claims.

10.7 Legal claims

The legal claims provision recognises claims against NSW Trains arising from legislative or contractual breaches or other matters.

The liability at year end was assessed by management by reviewing individual claims. The timing of the liability is inherently uncertain due to disputes over the quantum of individual claims.

10.8 Other provisions

Other provisions recognises NSW Trains contractual obligations and all claims to external parties. The exact timing of the liability and the amount is uncertain.

Notes to the Financial Statements for the year ended 30 June 2020

Note 11 Borrowings

	2019-20 \$'000	2018-19 \$'000
Current		
Lease liability	2,698	-
Total borrowings	2,698	-

The changes in liabilities arising from financing activities is set out below:

	1.7.2019 \$'000	Cash flows \$'000	Non-cash changes \$'000	30.6.2020 \$'000
Lease liabilities	1,599	(1,765)	2,864	2,698
Total liabilities from financing activities	1,599	(1,765)	2,864	2,698

Note 12 Contract liabilities

	30.6.2020 \$'000	1st July 2019 \$'000 adjusted for AASB 15
Contract liabilities - current	830	2,328
Contract receivables (included in Note 6)	17,132	24,259

The contract liability balance has decreased significantly during the year because of significant decrease of future ticket booking.

The effect of the contract balances is outline below:

	30.6.2020 \$'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	1,498
Transaction price allocated to the remaining performance obligations from contracts with customers	830

The Transaction price allocated to the remaining performance obligations relates to regional services which are booked in advance. 100% is expected to be recognised as revenue in the 2020-21 financial year.

Note 13 Leases

(a) As Lessee

NSW Trains leases coaches for a fixed period to meet operational requirements. The lease term is five years and has extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. NSW Trains does not provide residual value guarantees in relation to leases.

Extension and termination options are included in a number of property and equipment leases. These terms are used to maximise operational flexibility in terms of managing the contracts. The majority of extension and termination options held are exercisable only by NSW Trains and not by the respective lessor. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease liability includes all future cash flows arising from options to extend or terminate arrangements. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right-of-use assets of \$2,829,000.

NSW Trains has elected to recognise payments for short-term leases and low value leases as expenses on a straight-line basis, instead of recognising a right-of-use asset and lease liability. Short-term leases are leases with a lease term of 12 months or less. Low value assets are assets with a fair value of \$10,000 or less when new.

Notes to the Financial Statements for the year ended 30 June 2020

Note 13 Leases (continued)

13.1 Right-of-use assets under leases

The following table presents right-of use assets as at 30 June:

	Coaches \$'000	Total \$'000
Balance at 1 July 2019	1,599	1,599
Additions	2,829	2,829
Depreciation Expense	(1,742)	(1,742)
Balance at 30 June 2020	2,686	2,686

13.2 Lease Liabilities

The following table presents the liabilities under leases as at 30 June 2020:

	Lease liabilities \$'000
Balance at 1 July 2019	1,599
Additions	2,829
Interest expense	35
Payments	(1,765)
Balance at 30 June 2020	2,698

13.3 Lease expenses

The following amounts were recognised in the statement of comprehensive income for the year ending 30 June 2020 in respect of leases where NSW Trains is the lessee:

	\$'000
Balance as at 1 July 2019	
Depreciation expense on right of use assets	1,742
Interest expense on lease liabilities	35
Expense relating to short term leases	1,035
Total amount recognised in the Statement of Comprehensive Income	2,812

NSW Trains had cash outflows of \$2.8m relating to leases in the current year.

Notes to the Financial Statements for the year ended 30 June 2020

Note 13 Leases (continued)

13.4 Operating Leases

Future minimum rentals payables under non-cancellable operating lease as at 30 June 2019 are as follows:

	30.6.2019 \$'000
Operating leases	
Within 12 months	2,031
12 months or longer but not longer than 5 years	893
Total operating leases	2,924

The expenditure commitments include any associated Goods and Services Tax. Related input tax credits of \$0.2m are expected to be recoverable from the Australian Taxation Office.

13.5 Leases at significantly below-market terms and conditions

RailCorp provides access to certain rolling stock at no charge to NSW Trains in accordance with the Rail Services Contract until 30 June 2021. The assets are for restricted use given their specialised nature and enable NSW Trains to provide the rail passenger services.

Note 14 Contributed equity

14.1 Contributed equity

	Note	30.6.2020 \$'000	30.6.2019 \$'000
Contributed equity at start of year		250,430	249,082
Net (assets)/liabilities contributed to Government	14.2	(7,120)	1,348
Contributed equity at end of the year		243,310	250,430

14.2 Net assets contributed to the Government

Transfer of assets or (liabilities) from (or to) another NSW public sector entity are considered to be a contribution by (or to) the owner.

NSW Trains transferred Capital work in progress of \$7.1m to RailCorp in the current year. In the prior year, NSW trains transferred leave entitlements of \$1.3m to Sydney Trains.

	30.6.2020 \$'000	30.6.2019 \$'000
Assets transferred to other entities		
Capital work in progress	(7,120)	-
Total assets	(7,120)	-
Liabilities transferred to other entities		
Provisions	-	1,348
Total liabilities	-	1,348
Net (assets)/liabilities transferred out	(7,120)	1,348

Notes to the Financial Statements for the year ended 30 June 2020

Note 15 Commitments

The aggregate capital expenditure for the acquisition of plant and equipment (including intangibles) contracted for at balance date and not provided for:

	30.6.2020 \$'000	30.6.2019 \$'000
Plant and equipment (including intangibles)		
Within 12 months	1,396	3,123
Total plant & equipment (including intangible assets)	1,396	3,123

The commitments include any associated Goods and Services Tax. Related input tax credits of \$0.1m (2019: \$0.3m) are expected to be recoverable from the Australian Taxation Office.

Note 16 Contingent liabilities and contingent assets

16.1 Contingent liabilities

Contingent liabilities are possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of NSW Trains.

Conversely, they are present obligations arising from past events which are not recognised because it is uncertain or not probable that resources will be required to settle the obligation or the amount of the obligation cannot be reliably measured. However their probability of settlement is not remote.

Litigation

Contractual and other claims against NSW Trains arise in the ordinary course of operations. The existence or quantum of each claim is usually in dispute and the outcome cannot be measured reliably.

16.2 Contingent assets

Contingent assets represent matters that are unconfirmed (pending the occurrence or non-occurrence of an uncertain future event), or not reliably measurable or unlikely to be settled. However, their probability of settlement is "probable" but not "virtually certain".

Contractual and other recoveries represent claims made by NSW Trains against others in relation to contractual breaches and insurance claims in relation to other matters. The existence or quantum of each claim is usually in dispute.

Notes to the Financial Statements for the year ended 30 June 2020

Note 17 Financial instruments

17.1 Financial instruments

NSW Trains hold the following financial instruments:

Category		30.6.2020 \$'000	30.6.2019 \$'000
Financial assets			
Cash and cash equivalents	N/A	88,156	141,717
Trade and other receivables*	Amortised cost	17,699	24,817
Total financial assets		105,855	166,534
Financial Liabilities			
Trade and other payables**	Financial liabilities measured at amortised cost	30,170	60,795
Borrowings	Financial liabilities measured at amortised cost	2,698	-
Total financial liabilities		32,868	60,795

* Trade and other receivables exclude statutory receivables and prepayments, i.e. not within the scope of AASB 7 Financial Instruments: Disclosures.

** Trade and other payables exclude statutory payables and unearned income, i.e. not within the scope of AASB 7 Financial Instruments: Disclosures.

17.2 Financial risks

The operational activities of NSW Trains expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk). A risk management program focuses on financial performance and seeks to minimise potential adverse effects from financial market price movements. Methods used to measure risk include sensitivity analysis in the case of interest rate, and an ageing analysis for credit risk.

Risk management is carried out under approved policies. Treasury Management Policy establishes a prudential framework covering policies, best practice internal controls and reporting systems for the management of financial risks within NSW Trains' operation. The policy covers specific areas such as foreign exchange risk, interest rate risk, commodity risk, and credit risk, use of derivative financial instruments and investment of excess funds. The NSW Trains has a Treasury Management Policy. The primary objective of this policy is to achieve management of all financial risks in strict compliance with internal policies and guidelines within the broad framework of the NSW Treasury Management Policy (TPP07-7). Accounting for financial instruments is in accordance with NSW Treasury accounting policy (TPP19-05 Accounting Policy: Accounting for financial instruments).

NSW Trains Finance identifies and evaluates financial risk in close cooperation with NSW Trains' operating divisions.

Notes to the Financial Statements for the year ended 30 June 2020

Note 17 Financial instruments (continued)

17.3 Market risk

Market risk relates to fluctuations in the fair value of future cash flows of financial instruments because of changes in market prices. This applies to NSW Trains' interest rate risk.

Sensitivity analysis on market risk is based on price variability taking into account the economic environment in which NSW Trains operates and the time frame for assessment, that is, until the end of the next reporting period. The sensitivity analysis is based on financial instruments held at the balance date. The analysis assumes that all other variables remain constant.

17.3.1 Foreign exchange risk

NSW Trains is not exposed to foreign exchange risk, all significant contractual commercial transactions denominated in local currency.

17.3.2 Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rate. NSW Trains main interest rate risk relates primarily to cash at bank.

NSW Trains' bank accounts operate as part of the NSW Treasury Banking System. Interest is earned on daily cash balances at the Reserve Bank of Australia cash rate.

Exposure to interest rate risk at period end is set out below for NSW Trains financial assets:

	Interest Rate %	Principal Amount \$'000
Year ended 30 June 2020		
Financial assets		
Not later than 1 year		
Cash on hand and in transit	-	31
Cash at bank	0.25	88,125
Total financial assets		88,156

	Interest Rate %	Principal Amount \$'000
Year ended 30 June 2019		
Financial assets		
Not later than 1 year		
Cash on hand and in transit	-	318
Cash at bank	1.25	141,399
Total financial assets		141,717

NSW Trains' financial liabilities are exposed to interest rate risk in the current year. The interest rate exposure on borrowings not later than one year is 1.41%, between 1 and 5 years is 1.41%, and later than 5 years is 1.87%. The respective principal amounts for each period is \$2.7m, nil and nil.

Notes to the Financial Statements for the year ended 30 June 2020

Note 17 Financial instruments (continued)

17.3 Market risk (continued)

17.3.2 Interest rate risk (continued)

Interest rate sensitivity analysis

A change of +/- 1 per cent is used to measure NSW Trains' financial sensitivity to interest rate movements. NSW Trains' exposure to interest rate risk is set out below.

	Carrying Amount \$'000	Surplus/deficit \$'000		Equity \$'000	
		-1%	+1%	-1%	+1%
2020					
Cash at bank	88,125	(881)	881	(881)	881
2019					
Cash at bank	141,399	(1,414)	1,414	(1,414)	1,414

17.4 Credit risk

Credit risk arises where there is the possibility of NSW Trains' debtors defaulting on their contractual obligations, resulting in a financial risk to NSW Trains.

Credit risk can arise from financial assets of NSW Trains, including cash and cash equivalents, and credit exposure to customers, including outstanding receivables and committed transactions. NSW Trains has not granted any financial guarantees. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment or allowance for expected credit losses).

NSW Trains' credit risk policy is aimed at minimising the potential for counter party default. NSW Trains uses the Standard & Poor's rating system in assessing credit risk.

Credit risk associated with NSW Trains' financial assets, other than receivables, is managed through the sound selection of counterparties and establishment of minimum credit rating standards.

Cash

NSW Trains held \$88m in cash at bank at 30 June 2020 (2019: \$141m). This was held with Westpac Banking Corporation.

Note 17 Financial instruments (continued)

17.4 Credit risk (continued)

Trade receivables, Contract assets and Contract receivables

The maximum credit risk exposure in relation to receivables is the carrying amount, less the allowance for impaired debts / expected credit losses. Where necessary to support approval of a credit application for customers, security may need to be obtained in the form of an unconditional bank guarantee and/or security deposit.

NSW Trains considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, NSW Trains may also consider a financial asset to be in default when internal or external information indicates that NSW Trains is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the debtor.

NSW Trains applies the simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade debtors. To measure the expected credit losses, Trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on historical observed loss rates. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. NSW Trains has identified economic and tourism outlook to be the most relevant factors and accordingly adjusts the historical loss rates based on expected changes in these factors.

NSW Trains is not obliged to extend credit. NSW Trains is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors.

No interest is earned on trade debtors.

17.5 Liquidity risk

Liquidity risk refers to NSW Trains being unable to meet its payment obligations when they fall due. NSW Trains manages risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Credit standby arrangements are shown at Note 5.4.

During the current year, there have been no defaults or breaches on any amounts payable. No assets have been pledged as collateral. NSW Trains exposure to liquidity risk is deemed insignificant based on current year data and assessment of risk.

Liabilities are recognised for amounts due to be paid in the future for goods and services received, whether or not invoiced. If trade terms are not specified, payment is generally made no later than the end of the month following the month in which an invoice or a statement is received.

The following table reflects the maturity band for all contractual obligations including the payment of principal and interest resulting from recognised financial liabilities at reporting date excluding the impact of netting.

Notes to the Financial Statements for the year ended 30 June 2020

Note 17 Financial instruments (continued)

17.5 Liquidity risk

	Carrying amount \$'000	Contract Cash Flow \$'000	Less than 1 Year \$'000	Between 1 and 5 Years \$'000	Over 5 Years \$'000
Year ended 30 June 2020					
Financial liabilities					
Trade and other payables	30,170	30,170	30,170	-	-
Borrowings	2,698	2,718	2,718	-	-
	32,868	32,888	32,888	-	-
Year ended 30 June 2019					
Financial liabilities					
Trade and other payables	60,795	60,795	60,795	-	-
	60,795	60,795	60,795	-	-

Note 18 Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Due to the short-term nature of the current receivables, their carrying value is assumed to approximate their fair value and based on credit history it is expected that the receivables that are neither past due nor impaired will be received when due.

NSW Trains does not own any land or building. The current holding of Plant and Equipment are mainly operational equipment with useful lives of 10 years or less, they are measured at depreciated historical cost as a proxy for fair value. NSW Trains has assessed that any difference between fair value and depreciated historical cost is unlikely to be material.

The carrying amounts and aggregate net fair values of financial assets, non-financial assets and financial liabilities at balance date are:

Notes to the Financial Statements for the year ended 30 June 2020

Note 18 Fair value measurements (continued)

	Carrying Amount \$'000	Fair Value \$'000
Year ended 30 June 2020		
Financial Assets		
Cash and cash equivalents	88,156	88,156
Trade and Other Receivables	19,759	19,759
Total financial assets	107,915	107,915
Non-financial assets		
Plant and machinery	278	278
Right-of-use assets	2,686	2,686
Total non-financial assets	2,964	2,964
Financial liabilities		
Trade and other payables	41,621	41,621
Borrowings	2,698	2,698
Total financial liabilities	44,319	44,319

	Carrying Amount \$'000	Fair Value \$'000
Year ended 30 June 2019		
Financial assets		
Cash and cash equivalents	141,717	141,717
Trade and Other Receivables	26,155	26,155
Total financial assets	167,872	167,872
Non-financial assets		
Plant and machinery	200	200
Total non-financial assets	200	200
Financial liabilities		
Trade and other payables	67,434	67,434
Total financial liabilities	67,434	67,434

Notes to the Financial Statements for the year ended 30 June 2020

Note 19 Related party disclosures

19.1 Key Management Personnel Compensation

During the year, NSW Trains incurred \$2.3m (2019: \$0.5m) in respect of the key management personnel services that are provided by Transport Service NSW.

19.2 Transactions and Outstanding Balances with Key Management Personnel of NSW Trains and its parents during the year

There was no transaction or outstanding balance with Key Management Personnel of NSW Trains and its parent during the year (2019: Nil).

19.3 Transactions and Outstanding balances with Other Related Parties during the year

There was no transaction or outstanding balance with other related parties during the year (2019: Nil).

19.4 Transactions with Government Related Entities during the year

During the year, NSW Trains entered into transactions and held balances with other entities that are controlled or jointly controlled by the NSW Government. All of the activities were undertaken in the ordinary course of business operations.

The following transactions are significant either individually or in aggregate:

- RailCorp provides NSW Trains with access rights to assets including the rail stations, properties, tracks and rolling stock at no charge.
- Capital work in progress of \$7.1m was transferred to RailCorp (2019: Nil).
- Sydney Trains provides services to NSW Trains under a service contract inclusive of maintenance service.
- NSW Treasury has issued a letter of comfort to NSW Trains.
- Transport Service of New South Wales provides personnel services to NSW Trains.
- TfNSW provides some corporate and transactional services to NSW Trains.
- NSW Trains receives contributions from TfNSW.
- Opal card is managed by TfNSW. Opal passenger revenue is remitted to NSW Trains monthly.
- Service NSW provides contact centre services to NSW Trains' customers.
- NSW Trains provides some project management and other services to TfNSW relate to NIF (New Intercity Fleet) and Regional Fleet.
- In the prior year, NSW Trains transferred certain corporate staff to Sydney Trains.

Notes to the Financial Statements for the year ended 30 June 2020

Note 20 Events occurring after reporting date

Rail Corporation New South Wales (RailCorp) provides access to the rail network, stations, majority of property and certain rolling stock at no charge to NSW Trains in accordance with the Rail Services Contract with Transport for NSW. On 1 July 2020 Rail Corporation New South Wales (RailCorp) was renamed the Transport Asset Holding Entity of New South Wales (TAHE) and converted to a statutory State Owned Corporation pursuant to the Transport Administration Act 1988 (TAA) and the State Owned Corporations Act 1989. TAHE's listed functions and other functions are set out in section 11 of the TAA and are authorised but also limited by, an operating licence issued by the Minister of Transport. TAHE will be a for-profit entity for accounting purposes.

NSW Trains have assessed that there is no material impact on the operating result and the carrying values of assets and liabilities as a result of COVID-19.

(End of audited financial statements)



INDEPENDENT AUDITOR'S REPORT

NSW Trains

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of NSW Trains, which comprise the Statement of Comprehensive Income for the year ended 30 June 2020, the Statement of Financial Position as at 30 June 2020, the Statement of Changes in Equity and the Statement of Cash flows for the year then ended, notes comprising a Summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the NSW Trains as at 30 June 2020, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the financial statements' section of my report.

I am independent of the NSW Trains in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants (including Independence Standards)' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Other Information

The NSW Trains' annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Chief Executive of the NSW Trains is responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Statement by the Chief Executive.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Chief Executive's Responsibilities for the financial statements

The Chief Executive is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Chief Executive determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive is responsible for assessing NSW Trains' ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibilities for the Audit of the financial statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

The scope of my audit does not include, nor provide assurance:

- that NSW Trains carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



Margaret Crawford
Auditor-General for New South Wales

14 October 2020
SYDNEY

NSW Trains

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